Supreme Court, U.S.
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No. 09-819

In The Supreme Court of the United States

SAG AG and SAP AMERICA, INC.,

Petitioners,

v.

SKY TECHNOLOGIES, LLC,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF *AMICI CURIAE* THE TWENTY-SECOND CENTURY FOUNDATION AND THE INDEPENDENT FILM & TELEVISION ALLIANCE IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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INTEREST OF *AMICI CURIAE*[1]

The Twenty-Second Century Foundation, Inc. is a non-profit corporation created to advance fair and effective commercial utilization of information in the United States and internationally. The Foundation's Board of Directors and members include educators, authors and practicing attorneys with extensive academic and practical experience in the interaction between intellectual property law and commercial law, including the Uniform Commercial Code. Foundation members have authored several treatises on the subject, including, Prof. Raymond T. Nimmer & Jeff C. Dodd, *Modern Licensing Law* (2010 ed.) and Lorin Brennan, Holly K. Towle, Joel Rothstein Wolfson, *Commercial Information Law: The Complete UCITA* (2004). The Foundation is committed to assisting the orderly development of intellectual property and commercial law and policy to support innovation and commercialization worldwide. It is concerned that the decision below could impair that development.

The Independent Film & Television Alliance (IFTA) is a trade association representing independent

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[1] Pursuant to Supreme Court Rule 37.6, *Amici* state that no counsel for either party has authored any portion of this brief and no person or entity, other than *Amici*, has made any monetary contribution to the preparation or submission of this brief. Counsel for parties were given timely written notice of intent to file this Brief more than 10 days before the filing of this brief and neither party has objected. Statements of consent from all parties to the filing of this brief have been submitted to the Clerk.

motion picture and television producers and distributors worldwide. IFTA members have produced and distributed Academy Award® winning motion pictures such as *Crash*, *No Country for Old Men*, *Million Dollar Baby*, *Amadeus*, *The Last Emperor* and many others. IFTA members include major banks and financial services companies involved in motion picture and intellectual property financing. On behalf of its members, IFTA has been actively involved in the work of the United National Commission on International Trade Law (UNCITRAL) in developing an Intellectual Property Supplement to the UNCITRAL Legislative Guide on Secured Financing. These instruments, like domestic law, tend to treat all types of intellectual property under comparable financing rules. Thus, while this case is specifically about patents, the issues involved could nonetheless impact the effect of a security interest on chain of title for other intellectual property interests, such as copyrights and trademarks, and have domestic and international implications of importance to IFTA members.

SUMMARY OF THE ARGUMENT

This case raises an important issue regarding the relationship between federal patent law and state secured transactions financing law: Can state law (Article 9 of the Uniform Commercial Code ("UCC")) create a system for transferring patent *title* under a

security interest which supersedes the express provisions in the Patent Act, 35 U.S.C. § 261? Until this decision, both the Patent Act and the UCC have answered, "No." While this case involves patents, the UCC does not distinguish between types of intellectual property as such, so it could also impact copyrights and federally registered trademarks.

In order to establish patent chain of title, in principle under the Patent Act parties should be able to rely on the records in the Patent and Trademark Office (PTO), including for security interests. The decision below places the Federal Circuit in the position of endorsing a new *state-law created* property right in patents – the security interest "license" – which transfers *patent legal title* by operation of state law on foreclosure with priority over competing assignments recorded in the PTO.

The implications for clearing patent chain of title are profound. A secured creditor under a patent security interest that is not recorded in the PTO, or its successor in title by unrecorded foreclosure, under this decision can lay claim to patent title with priority over those who rely on the title records in the PTO. Parties will not be able to treat the records in the PTO as sufficient to determine patent ownership.

The decision below also failed to consider the international implications. If a patent security interest is now subject to UCC Article 9, then it must also be subject to its choice of law rules. Under the UCC, priority of a security interest in a patent is determined

by the law where the debtor is "located." Thus, if the debtor granting the patent security interest is a *foreign* national, then, with some qualifications, *foreign* law will determine the priority of a security interest in a *U.S.* patent against a *U.S.* national who relies on the records in the *USPTO*.

The decision below was led into error because it did not accurately address the conceptual basis for a modern security interest. When the UCC was adopted it eliminated location of *title* as a means of determining rights and obligations in favor of functional rules based on *rights*. Under the UCC "rights in collateral" is *not* the same as "title to collateral." Instead, the UCC expressly defers to asset property law to deal with formalities of title.

A foreclosure sale on a patent must comply with the formalities in Patent Act § 261 to pass patent legal title.

The decision below misstates both patent law and UCC law with potentially serious consequences. Respectfully, review should be granted.

ARGUMENT

I. THE DECISION BELOW WILL DISRUPT THE PATENT LAW SYSTEM FOR DETERMINING TITLE OWNERSHIP

By creating a parallel means of transferring title outside the federally mandated PTO filing system, the decision below compromises the reliability and effect of the PTO system.

The decision below reflects a continuing misunderstanding in the lower courts about the relation between the law governing conveyances of intellectual property, in particular "assignments, grants and conveyances" of patents under Patent Act § 261 (35 U.S.C. § 261), and the law for creating and enforcing security interests in Article 9 of the Uniform Commercial Code ("UCC"). Although this case is specifically about patents, the UCC does not differentiate between patents, copyrights and trademarks as such, and the decision below has implications for resolving chain of title for all intellectual property, including copyrights and federally registered trademarks.

It is a fundamental principle of the UCC that a security interest deals in *functional rights* not *formalities of title*. As such, the UCC specifically defers to asset property law – in this case federal patent law – for the formalities needed to create and enforce a security interest with respect to patent *title*. In failing to recognize this difference, the decision below conflicts with both patent and UCC law. The

consequence could be a severe disruption in commercial practices used to establish chain of title and thereby resolve the indispensable issue in patent law: who holds legal title and resulting ability to deal in the patent?

Parties dealing in a patent should be able to rely on the records in the Patent and Trademark Office (PTO) to determine patent ownership. However, *In re Cybernetic Services, Inc.*, 252 F.3d 1039, 1052 (9th Cir. 2001), cert. denied, 534 U.S. 1130, 122 S.Ct. 1069, 151 L.Ed.2d 972 (2002), held that a security interest is a "mere license" under patent law and hence out- side the requirements and priority rules of Patent Act § 261. Scholars have questioned this result as it "ignores that to enforce a security interest against an asset often requires foreclosure and *assignment* of the underlying asset to a foreclosure buyer." Raymond T. Nimmer, *Revised Article 9 and Intellectual Property Asset Financing*, 53 Me. L. Rev. 328, 336-337 (2001) (emphasis added). A security interest *license* should not be capable of assigning patent *title* on foreclosure under *Waterman v. Mackenzie*, 138 U.S. 252, 255, 11 S.Ct. 334, 34 L.Ed. 923 (1891). Instead, consistent with *Waterman*, a UCC security interest should be treated as a conditional or equitable *assignment* for purposes of patent law, as noted in *Prima Tek II, LLC v. A-Roo Co.*, 222 F.3d 1372, 1378 (Fed. Cir. 2000). As such, a security interest would still be an "assignment, grant or conveyance" subject to Patent Act § 261 for purposes of its creation, priority and disposition on foreclosure.

The decision below now undoes this reasoning. A security interest is still a type of *property* right. *See Wojcik v. City of Romulus*, 257 F.3d 600, 610 (6th Cir. 2001). As such, the decision below effectively endorses a new state law property right in federal patents – the security interest "license." This "license" then "transfers" *patent legal title* by operation of state law on foreclosure without the need to comply with Patent Act § 261 and with resulting priority over those who do. One cannot overstate the devastating impact on the integrity of the PTO records for establishing chain of title. It means a secured creditor under a "secret," *i.e.* unrecorded in the PTO, "security interest license," or its successor by unrecorded foreclosure sale, may hold claim to patent legal title with priority over those who do record in the PTO. As such:

- PTO examiners can no longer rely on the recorded documents in the PTO to ensure they are dealing with the true legal owner when processing applications.
- Third parties seeking a license cannot be sure the party shown as legal owner on PTO records is in fact empowered to grant licenses.
- Bona fide purchasers of the patent can no longer rely on the PTO records as sufficient to clear title in acquiring a patent.
- Patent owners cannot rely on just the records from the PTO to prove chain of

> title needed for standing to sue in an infringement action.

Also troubling is the international impact. If patent security interests are subject solely to the UCC Article 9, then they must also be subject to its choice of law rules. Under UCC § 9-301(1), the law governing priority of a security interest in intellectual property (as "general intangibles") is the law of the jurisdiction where the debtor is "located." Under UCC § 9-306 determining "location" is a technical issue, but in many cases if the debtor granting the patent security interest is a foreign national, then *foreign law* could determine priority of this "security interest license" in a *U.S.* patent as against a *U.S.* national relying on the integrity of the records in the *USPTO*.

The point is the decision below has broad implications on how parties resolve chain of title for patents when a security interest is involved. The decision below did not consider these implications, but they could have severe negative consequences for U.S. interests unless corrected by this Court.

II. THE DECISION BELOW CONFLICTS WITH OTHER DECISIONS REGARDING HOW THE UCC TRANSFERS TITLE ON FORECLOSURE

The decision below fails to apply the proper relationship between *title to collateral* used to establish standing to sue under patent law and functional notions of *rights in collateral* in UCC secured financing

law. This led the court below to misstate how a UCC foreclosure sale actually affects title to collateral.

Under pre-UCC law, the location of title to collateral in debtor or creditor had a profound effect on the remedies available for creditor misbehavior on foreclosure.[2] The issue was controversial. Rather than choose sides, the UCC eliminated "location of title" as the conceptual fulcrum for determining rights and obligations under a security interest and instead focused on functional rules based on "rights." Thus, a UCC security interest is conceived as a *right* in collateral, with functional rules about how parties exercise this right independent of the formalities of location of title.

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[2] This was the famous "title-lien" debate. A "title mortgage" gave *legal title* to the creditor leaving the debtor with an equity of redemption ("equitable title"). Creditor misbehavior impaired the debtor's equitable title, only allowing a right in equity to have the fair value applied to the debt. A "lien mortgage" gave the creditor a "special property right" (like an "equitable title") leaving *legal title* with the debtor. Creditor misbehavior was a conversion of the debtor's legal title, eliminating any deficiency as a sanction. *See Metheny v. Davis*, 107 Cal.App. 137, 139-140, 290 P. 91 (1930) (describing differences). Obviously, "title" mortgages favored creditors, while "lien" mortgages favored debtors. The states took different positions on which type of mortgage was preferable. *See* Lorin Brennan, *Financing Intellectual Property Under Federal Law*, 23 Hastings Comm/Ent L.J. 195, 210-214 (2001) discussing history and relationship to *Waterman* decision regarding location of legal title and resulting standing to sue under a patent mortgage.

Under this approach, the UCC specifically leaves issues of *title* to the property law applicable to the asset. UCC § 9-202 says (emphasis added): " . . . the provision of this article with regard to rights and obligations apply *whether title to collateral is in the secured party or debtor.*" As Official Comment 3.b to § 9-202 adds (emphasis added): "[T]his Article does not attempt to define whether the secured party is a 'legal' owner . . . *Other rules of law or the agreement of the parties determines the location and source of title for those purposes.*" As a result, UCC Article 9 emphatically does not address formalities of location of title for resolving issues not germane to rights and obligations under a security interest, in particular standing to sue for patent infringement.

Thus, when creating a security interest, UCC § 9-203(b)(2) says it only attaches to the extent "the debtor has rights in collateral . . . " "Rights" are the measuring rod, not "title." As Official Comment No. 6 to § 9-203 explains, "[a] debtor's limited rights in collateral, short of full ownership, is sufficient . . . " Under Patent Act § 261, a patentee only has the *right* to assign patent legal title in writing. A foreclosure can dispose of no greater rights than those to which the security interest attached. *Septembertide Publishing, B.V. v. Stein and Day, Inc.*, 884 F.2d 675, 681-682 (2nd Cir. 1989). The UCC does not purport to create a "super-right" to make an "oral transfer" of patent legal title on foreclosure when a security interest could never attach to such an "oral patent transfer right" in the first instance.

Similarly, when it comes to foreclosure, UCC § 9-671(a)(1) says that a "secured party's disposition of collateral after default . . . [t]ransfers . . . all of the debtor's rights in the collateral." Under the functional approach in the UCC, *rights in collateral* is not the same as *title to collateral*. To the contrary, the UCC defers to asset property law to determine how the parties to a foreclosure sale must exercise the debtor's rights in collateral to accomplish a transfer of title.

The point is: title to goods in a foreclosure sale does not pass "automatically by operation of law" but occurs consistent with the rules in applicable asset property law.

The same should apply to patents. "Indeed, the necessity of a writing, like the necessity of an automobile certificate or a deed, to effect a valid transfer of a patent right has long been a matter of hornbook law." *United States v. Solomon*, 825 F.2d 1292, 1296 (9th Cir. 1987), cert. denied, 484 U.S. 1046, 108 S.Ct. 782, 98 L.Ed.2d 868 (1988). The decision below, in holding that a foreclosure sale passes patent legal title "by operation of law" without the necessity of complying with the formalities of underlying asset property law in Patent Act § 261, is in conflict with the language and policy of the UCC and an array of decisions reaching contrary results for foreclosure sales on goods, automobiles and liquor licenses.

CONCLUSION

The decision below threatens to disrupt the integrity of the recording system in the PTO needed to prove patent chain of title in a way patent law does not allow and the UCC does not want. Only this Court can rectify this serious error. It is respectfully requested that review be granted.

Respectfully submitted,

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